

Message Text

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15

ACTION ARA-17

INFO OCT-01 ADP-00 AGR-20 PA-03 PRS-01 USIA-12 L-03 AID-20

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FM AMEMBASSY KINGSTON

TO SECSTATE WASHDC 1556

C O N F I D E N T I A L KINGSTON 1069

E. O. 11652: GDS

TAGS: EIND JM

SUBJ: JAMAICA FLOUR MILLS

REF: KINGSTON 685

SUMMARY: COST PRICE SQUEEZE FORCES CLOSURE OF JAMAICA FLOUR MILLS. JAMAICAN GOVERNMENT REACTS ANGRILY AND BACKS OFF FROM PROPOSED JOINT VENTURE WITH JFM. DISCUSSIONS CONTINUE, BUT THE SITUATION COULD HAVE A DELETERIOUS EFFECT ON THE JAMAICA BUSINESS CLIMATE.

1. JAMAICA FLOUR MILLS, THE ISLAND'S ONLY MILLER OF COMMERCIAL BAKERY FLOUR, CLOSED DOWN ON SATURDAY, MAR 31. THE MILL CLAIMED THAT RISING GRAIN PRICES COMBINED WITH THE GOVERNMENT'S REFUSAL TO CHANGE THE CONTROLLED PRICE OF FLOUR HAD CREATED A SITUATION IN WHICH IT WAS LOSING \$4,000 A DAY.

2. THE JAMAICAN GOVERNMENT, INCLUDING PRIME MINISTER MANLEY, HAS CRIED " FOUL". THEY CLAIM PUBLICLY THAT THE ACTION WAS HIGH-HANDED AND TAKEN WITHOUT SUFFICIENT NOTICE. PRIVATELY, THEY BLAME THE MILL FOR PAYING EXCESSIVE MANAGEMENT TRADEMARK FEES TO ITS ONE THIRD OWNER, PILLSBURY, AND FOR NOT INVESTING IN GRAIN FUTURES WHICH WOULD HAVE PROTECTED THEM AGAINST RAW MATERIAL PRICE RISES.

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3. THE EMBASSY HAS FURTHER BEEN INFORMED BY THE MILL THAT THE GOVERNMENT'S ANGER OVER THE CLOSURE HAS CAUSED IT TO BACK OFF FROM THE PROPOSAL THAT THE GOVERNMENT AND JFM FORM A JOINT VENTURE (REFTEL). THE MILL TELLS US THEY HAVE BEEN TOLD THAT THE GOVERNMENT NO LONGER TRUSTS THEM AND NOW INTENDS TO SET UP A SECOND, GOVERNMENT- OWNED MILL. A PROFITABILITY CEILING OF 15 PERCENT OF EQUITY WOULD BE IMPOSED ON JFM.

4. FORTUNATELY, DISCUSSIONS ARE CONTINUING. THE VICE PRESIDENT AND GENERAL MANAGER OF PILLSBURY'S INTERNATIONAL DIVISION, MR. ELSTON, IS ARRIVING IN JAMAICA APR 4 AND WILL BE MEETING THAT AFTERNOON WITH P. J. PATTERSON, MINISTER OF INDUSTRY AND TOURISM. ELSTON IS EXPECTED TO PRESENT NEW PROPOSALS FOR GOJ- JFM PARTNERSHIP. WE HAVE ALSO HEARD THAT THE MILL WILL REOPEN APR 5, WITH FURTHER NEGOTIATIONS TO TAKE PLACE ON PRICES.

5. COMMENT: THIS IS A MESSY AND UNFORTUNATE SITUATION. THE MILL CLAIMS THAT THEY INFORMED THE GOVERNMENT AS LONG AGO AS SEPT 13, 1972, OF AN IMENDING COST- PRICE SQUEEZE. THE EMBASSY KNOWS AS A FACT THAT AT LEAST BY FEB 28, 1973, THE GOVERNMENT WAS WELL AWARE OF JFM'S PROBLEMS. HOWEVER, WHEN THE PRIME MINISTER RETURNED TO THE ISLAND FROM HIS VENEZUELAN TRIP ON MAR 31, HE INDICATED PUBLICLY THAT THE WHOLE THING WAS A SURPRISE TO HIM. IT IS TRUE THAT JFM HAS BEEN A HIGHLY PROFITABLE OPERATION, BUT IT IS HARD TO SAY WHERE GOOD BUSINESS ENDS AND EXCESSIVE PROFITS BEGIN.

6. IN THE SHORT RUN, THE MILL, ABOUT HALF OF WHOSE STOCK- HOLDERS ARE JAMAICANS, WILL TAKE A BEATING IF THERE IS NO AMICABLE SETTLEMENT. IN THE LONG RUN, THE JAMAICAN GOVERNMENT COULD FACE SOME HEAVY GOING. THE JAMAICAN MANUFACTURERS ASSOCIATION HAS ALREADY ACCUSED THE GOVERNMENT OF IMPOSING " USELESS PRICE CONTROLS WHICH ULTIMATELY RESULT IN SHORTAGES, POOR CONTROL, UNEMPLOYMENT AND BLACK MARKETING". MINISTER PATTERSON HAS RESPONDED TO THIS ATTACK BY WARNING THAT " ANYBODY WHO WANTS TO GO TO BATTLE WITH THE GOVERNMENT SHOULD THINK TWICE." NONE OF THIS IS HELPFUL TO JAMAICA'S BUSINESS CLIMATE, WHICH ALREADY SUFFERS FROM DOMESTIC UNCERTAINTY AND A DECLINE IN FOREIGN CAPITAL INFLOWS.
ROBERTS

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